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N.A.P.M. is reaching out to touch someone

Report on software

PurchasingWorld

February 1986
Vol. 30 No. 2

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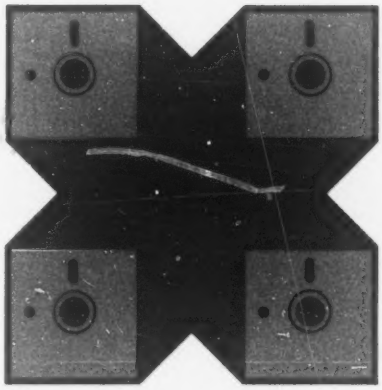

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PW PREDICTS

Robert S. Reichard, executive editor

A good act to follow

The new year is starting where 1985 left off. Some price increases have been announced for the first quarter, but that's standard for this time of year. Judging from preliminary reports, many of the increases are not sticking or are being watered down.

News from buyers is good too. The latest N.A.P.M. Business Survey Committee report still shows more PMs experiencing price declines (8% of respondents) than increases (2%). The study does find some signs that the pace of decreases is slowing, but that's not so surprising given the fact that general business activity is currently rising at almost a 3% annual rate.

The next few quarters probably won't show any dramatic changes. There will be scattered price increases ahead, but these will be modest—held down by continuing domestic competition, imports, and small cost increases.

This is certainly true of basic commodities. Right now it would take more than a year of solid growth to absorb current supply gluts on the primary level. And if oil prices tumble, it would have an affect on energy tags and a whole range of commodities that require large energy inputs. Both DRI and Wharton Econometrics estimate that if the price of oil dropped to near $20/bbl (from $26/bbl now) a full percentage point could be knocked off the nation's overall inflation rate.

Other reasons that basic commodity prices will remain soft: 1) continued all-out production by Third World countries hungry for foreign exchange, 2) additional substitution of synthetic materials for metals and other traditional commodities, and 3) less-than-sensational world economic growth.

The overall advance for the Western industrialized (OECD) nations is put at only 2.5% for 1986—down from the 4.9% and 2.8% rates of 1984 and 1985.

Also reassuring is the likelihood that the inflation rate will remain subdued. Labor cost pressures will be minimal as hourly wages of production workers are expected to rise only 3.6% this year.

All this has prompted the Administration to project only a 3.8% inflation rate (GNP basis) for 1986—virtually unchanged from last year's 3.5%. A recent survey of 28 leading economists suggests that the average advance for 1986 will be about 3.8%. Staying within that range, a survey of the 12 big econometric models pegs the rate at only 3.6%.

What is true for the U.S. is also true for the industrialized western world. OECD sees the inflation rate of its 24-member group averaging out at 4%.

In short, the price front seems stable for 1986. This trend may even continue into 1987.

Personal computers

Personal computers, now a standard fixture in most offices, are increasingly communicating with one another and with mainframes.

That's one of the key findings in a new Administrative Management Society (AMS) survey of 262 leading companies. Two thirds of the firms reported increased machine communication—up sharply from last year's less than 50% reading and a trend that bodes well for the integrated office concept.

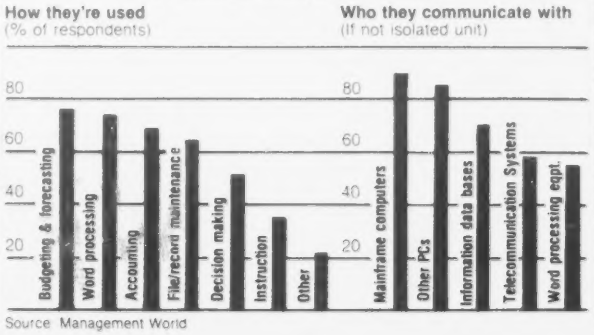
Also indicative of increased efficiency is the fact that 96% of the respondents are using or are considering the use of PCs—up from last year's 92%. Almost a third also report having 21 or more PCs at their locations—a 10% increase over last year.

Other key trends noted in the study:

- **Users:** Middle managers have the most access to PCs (55% of respondents), closely followed by data processing personnel (54%), clerks (49%), and word processing personnel (48%).
- **Functions performed:** Budgeting and forecasting are the most popular applications, according to 76% of the respondents. Other high use applications: word processing (73%), accounting (69%), file/record maintenance (63%), and decision making (51%).
- **Type of equipment:** IBM continues to tighten its grip on the market—74% report using IBM PCs. Far behind are Apple (6%), Digital (5%), Wang (4%), and Hewlett-Packard (3%).
- **Acquisition approach:** Top management gives the final okay for PC purchases according to 73% of the respondents, followed by data processing managers (27%), individual department managers (19%), and administrative services managers (10%). Most respondents buy their PCs outright. Only 13% reported leasing them.

More significant for purchasing is the trend toward consolidation. Specifically, nearly three out of four respondents have instituted or are considering instituting a formal policy controlling the acquisition, installation, and use of PCs—up 11% from a year earlier.

Personal computer trends



Source: Management World

PW PREDICTS

Plastic resins

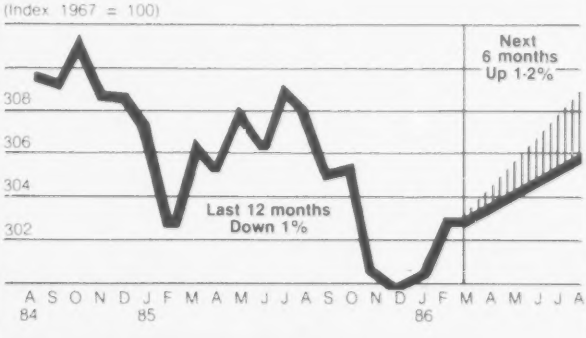
CURRENT SITUATION: Prices have firmed a bit lately. Overall averages are up about 1% from recent lows. Producers are now trying to boost 1Q tags still more for key plastics such as high and low density polyethylene, polypropylene, polystyrene, and PVC. **A key reason for all this: fairly good demand.** Producer prices were up 6% in 1985. This, combined with only fractional increases in capacity, boosted the average operating rate for major thermoplastic resins to near 85%—up 5% over 1984.

DEMAND: Look for another good year—demand is expected to increase 4-5%. LDPE will again lead the field with about 9.5 billion lb expected to clear the market—followed by PVC and HDPE (each about 6.5 billion lb), PP (5.5 billion lb), and polystyrene (4.2 billion lb). **The long-term prognosis is also bullish.** Average gains for volume thermoplastics may grow at about 5% a year. **Engineering plastics demand could increase 10-14% annually.**

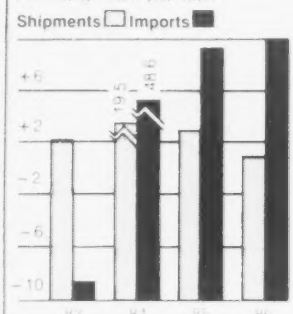
SUPPLY: Glutted markets will slowly disappear. An 87% operating rate for thermoplastics is projected for 1986—up from last year's 85%. **But there could be significant variations among individual plastics.** Specific operating rates for 1986: HDPE (100%), LDPE (92%), PP (92%), PVC (81%), PS (70%), and ABS (68%).

PRICE OUTLOOK: Rising monomer costs and tolerably good demand should continue to put near-term upward pressure on prices. But advances will generally be modest because not all of the prices will stick and overall averages will only increase 1-2%. Quotes will all stay under official lists—**less than a 4% overall advance is projected for 1986.** Even this could be a bullish projection if crude oil takes a tumble.

Plastic Resins



Bearings



Bearings

Prices remain soft as imports take a larger bite out of the market. Some eye-opening figures on this score: Imports now account for 60% of U.S. ball bearing unit shipments and 17% of the dollar volume of all bearings currently sold. Three other signs suggesting continued downward pressure on prices: (1) new inroads by imports in the tapered roller and aircraft bearing sectors, (2) current low 60% domestic factory operating rates, and (3) projections for another 10% rise in the dollar volume of imports this year—to nearly $737 million.

Copper

Still no sign of any sustained price pickup. Producer metal is still unable to break through the 70¢/lb barrier. One problem is the relatively low demand from brass and wire mills. Nevertheless, some modest price advance is possible. Reason: Low user stocks and possible hedging against threatened work stoppages both here and in Canada. But don't expect any near-term return to the 80¢/lb levels of early 1984. The long-term prognosis isn't bullish either—as new capacity comes on stream and substitution takes its toll—particularly in the telecommunications sector where fiber optics are gradually replacing copper in more applications.

Polyester resins

Prices of unsaturated resins remain soft. Quotes are off by as much as 5% from last year's levels. Behind the easiness are declining raw material prices and lackluster demand (1985 total use dropped 1% or so behind year-earlier levels because of disappointing boat and construction materials). Capacity has increased by about 100 million lb (to 1.7 billion lb—well above the 1.2 billion lb currently clearing the market). Prices are likely to remain at current depressed levels of 48-52¢/lb for the general purpose boat grade and 46-50¢/lb for the general purpose shower stall grade.

Aluminum

The light metal has turned a little more buoyant. Merchant ingot, for example, has moved from the mid-40s of last fall to near the mid-50s. Several producers have boosted non-heat treated plate and sheet by about 10%. Other bullish signs: (1) slowly falling producer inventories, (2) improved order books, (3) expecta-

Construction Materials

CURRENT SITUATION: Buyers remain firmly in control—as excess capacity, weak energy tags, and imports keep a lid on prices. In 1985, overall quotes moved up only about 1%. And in some areas—notably glass, plastic construction products, and wire and cable—they actually declined. This is remarkable because it has occurred at a time of relatively good construction activity (overall dollar totals for 1985 were up 8%).

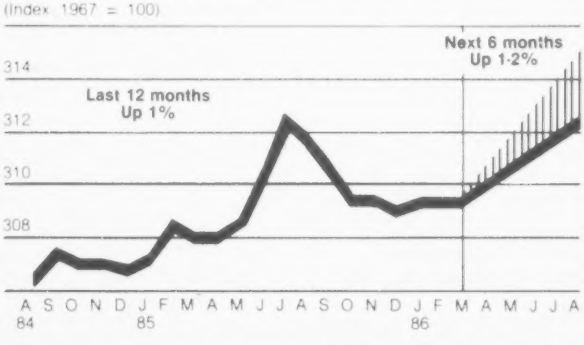
DEMAND: Domestic shipment gains will be limited in 1986, in part because of increasing imports. Construction activity probably will not top 1985 levels if nonresidential work declines as predicted. **Real U.S. gains for 1986 seem to be shaping up like this:** flat glass (2%), cement (2%), brick and tile (5%), concrete blocks (5%), gypsum (4%), and fabricated structural metal (2%). Lumber should hold flat.

SUPPLY: Adequate or more-than-adequate domestic capacity and continuing heavy imports assure a repeat of last year's problem-free performance. Canadians are capturing a bigger share of the market. They have doubled production potential in the past decade, and 1985 estimates indicate that they now control about 30% of the U.S. market. Steel contracts continue to be lured by cheaper overseas prices. And cement imports will probably hold on to their current 15-16% share of the market.

PRICE OUTLOOK: Lackluster demand and excess supply aggravated by imports, will hold overall advances to about 2-3%. Individual product lines will advance as follows: asphalt roofing (0-1%), glass (2-3%), insulation materials (1-2%), gypsum products (0-1%), structural steel shapes (3-4%), rebars (4-5%), and concrete products (5%). **Some acceleration is possible by 1987—but only into the 3-4% range.**

Construction Materials

(Index 1967 = 100)



tions of a modest increase in Free World consumption in 1986, (4) continuing shutdown of excess capacity, and (5) increased buying by the Japanese. Certainly, no one is predicting a boom, but the feeling is markets will continue to inch up—with ingot reaching 60¢/lb by sometime this spring or summer.

Silicon wafers

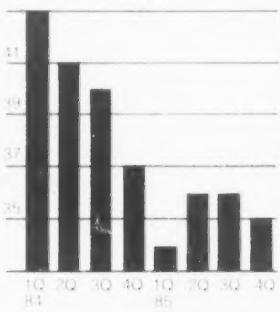
Price erosion should continue in 1986—on top of the 5-10% decreases recorded in 1985. Although demand could be up this year, it will only partially reverse last year's 50% drop. Not surprising, competition remains fierce—with 4-inch wafers selling in the $9.50-11.50 range, 5-inch wafers in the $18-21 range, and 6-inch wafers going for about $35. Spot market quotes are even lower—with 4-inch varieties going for as low as $9.

Polystyrene

New attempts to boost prices by a hefty 4¢/lb could be in trouble. Reason: Demand and pricing are historically weak this time of year. Another factor: low operating rates. The industry at latest report is producing at less than 70% of capacity. With only a 3-4% increase in shipments anticipated for 1986, the industry will be hard pressed to push this rate up by more than a percentage point or two anytime soon. Best bet is a

Polystyrene prices

(Market quotes, ¢/lb)



1-2¢/lb rise in prices. This would bring the general purpose grade up only into the 35-36¢/lb range. That's still 12-13¢/lb under official list levels.

Paper

Price averages may be ready to move up a bit. Discounts have increased slightly in newsprint and groundwood coated papers, but these should be offset by the new $40/ton increases in uncoated white papers that would eliminate most of the discounting of recent months and by attempts to bring market prices for linerboard back into the $290/ton range. (They had been as low as $240-250/ton late in 1985). Chances are some of these latter increases will hold because supplies aren't nearly as loose as they were last year. Also 1986 demand for corrugated boxes (linerboard's end-use product) is likely to be up 2-2.5% in 1986, reversing last year's decline.

Lead

The heavy metal continues to sag. Quotes at latest re-

Flexible packaging

Big developments are in the offing in the dynamic flexible packaging market. A new study by Frost & Sullivan points to some key trends.

- **Overall demand:** The various product lines in this industry (films, laminates, paper, foil, and bags) already have about 15% of the overall packaging dollar and could capture an even bigger share by 1990 as they rack up 6.6% annual real gains.
- **Product breakdown:** Biggest advances over the 1984-90 period will be in converted flexible packaging where close to 9% real annual gains are anticipated. On the other hand, relatively small annual increases (about 3-4.5%) are seen for heavy duty bags, grocery/merchandise bags, and plain wrappers.
- **Converted flexible packaging details:** The major trend setter here will be the expansion of existing markets, aided by state-of-the-art cost-effective coextruded, multilayer barrier, flexible materials. One foot dragger is the retort pouch which is only gaining acceptance slowly.

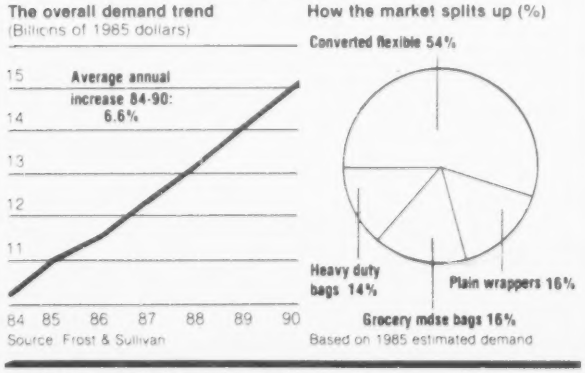
There's less optimism, however, about heavy-duty shipping sacks where demand may actually edge lower. One exception here: The all-plastic heavy-duty bag could more than triple in demand by 1990.

The gain in plastics will also be evident in other flexible packaging sectors, especially in the grocery sack area. Paper, which had a 9:1 advantage over plastic in 1984, will probably move to parity with plastic by 1990.

Further inroads for plastics are also expected in the merchandise and shopping bag arena. Their current 60% of market share here is expected to expand to near 70% by the end of this decade.

Looking at the last flexible packaging sector—plain wrappers—it's becoming clear that this is basically a mature market. But again some distinctions are in order. While static or declining trends are seen for tissue paper, glassines, and greaseproof papers, stretch pallet wrap could more than triple in size by 1990.

The flexible packaging market



port were still under 20¢/lb—pretty much unchanged from the levels of the past few months, and less than half the 50¢/lb quote that prevailed some five years ago, just before the last recession. Blame it on stagnating global oversupply (Free World stocks are still in the high 250,000 ton range) plus lagging consumption. And this isn't likely to change in the next few months, certainly not in the U.S. when demand from battery makers normally sags. Conclusion: a continuation of under 20¢/lb prices through spring.

Industrial gases

Some modest price uptrend is possible, if not in the list levels then in the form of reduced discounting. Reason: Liquid gas demand is expected to advance by 5% this year—just about offsetting any increases in capacity—thus leaving operating rates near the current 82-83% level. One prime candidate for an increase is argon where supplies have been tight because of increased use by steel producers. The long-term demand prognosis is also good—with average annual gains of 3-4% and 5-6% seen for liquid oxygen and nitrogen, respectively.

Zinc

Somewhat higher tags could be in the offing. Quotes are likely to average around 35¢/lb over the next few months. It's not so much that demand is up, but rather that the recent price slide may have been overdone. Also suggesting modest gains is the lingering market imbalance. In 1985, Free World output rose 1% at the same time use was falling by a similar amount. Moreover, auto production won't show any big jump—as protective coating use is offset by reduced die castings. Domestic use this year is likely to rise by only 2.5-3%—to 915,000 tons.

Semiconductor shipments

(% change from previous year)

	Integrated circuits	Discrete devices
1983	+23.3	+15.7
1984	+52.8	+44.9
1985	−32.6	−23.7
1986	−48.0	−1.4

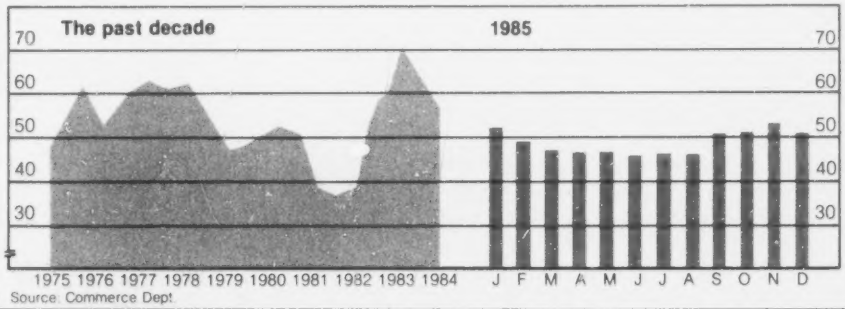
Semiconductors

Demand is beginning to pick up. Shipments are expected to rise gradually each quarter throughout the year. But because of the sharp drops last year, total U.S. billings are still likely to be off about 4% for the year as a whole. The new figures, part of *In-Stat's* new forecast, suggest that the entire drop will be in integrated circuits (off 4.8%). For discrete devices the forecast sees a small 1.5% advance. But all of this does not rule out some modest price firming. By yearend, overall semiconductor sales should be running close to 20% above late 1985 lows, says *In-Stat*.

BUSINESS DATATRAK

NAPM business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Source: Commerce Dept.

KEY ECONOMIC TRENDS

Economy stays in gear

The economy, now well into the first quarter, shows no signs of losing the modest momentum of late last year.

Factors to support this thought are easy enough to find: relatively brisk consumer sales, falling unemployment rates, rising military spending, relatively restrained labor and other upward cost pressures—and continuing low inventory-sales ratios.

And capital spending isn't all that bleak, at least not for the next few months. The latest government survey suggests that business spending for plant and equipment will rise at an annual rate of 8% over the first half.

True, the second half doesn't look all that robust. But estimates for the latter half could well be revised upwards if (1) consumer spending remains at current high levels, (2) the weakening dollar begins to slow down imports, and (3) business taxes go up less than House-passed tax reform bill calls for.

Then, too, factory orders are coming in at a fairly healthy clip (top chart). This is keeping backlogs better than 1% above a year earlier and would seem to assure that industrial production will continue to inch up after more than a year of relative stagnation.

Also indicative of improving production schedules is the relatively firm pace of industrial distributor sales. It means that factory managers are buying the critical MRO items needed to maintain or even boost current high output levels.

The rise in the factory work week (with overtime jumping to 3.6 hours) is also indicative of pressure to keep industry production high. In any case, the latest workweek reading of 41 hours for the average factory is the highest in nearly two years—or ever since spring of 1984 when output was booming.

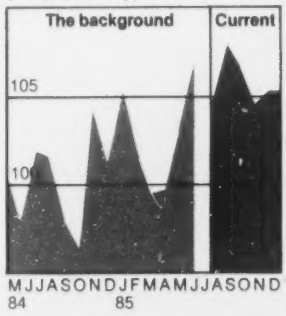
But everything isn't coming up roses. Housing permits (a lead indicator of future housing starts) have come down recently. But the latest figures can hardly be described as dismal, for they suggest that housing starts still have a fighting chance to equal last year's 1.7 million.

Foreign trade is yet another area where the news should eventually take a positive turn. The deficit has failed to improve, despite recent declines in the value of the dollar relative to other currencies. But this is to be expected because the effects of devaluation usually lag by a year or more. Look for some improvement here by early summer.

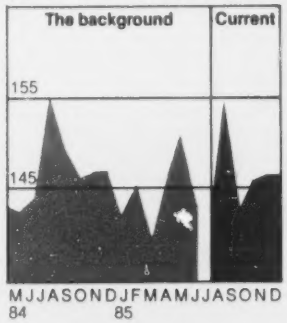
Finally, if there is still any doubt that the basic trend is still up, take a look at leading indicators. The widely monitored NAPM Barometer has remained above the neutral 50 mark for four consecutive months.

Leading indicators

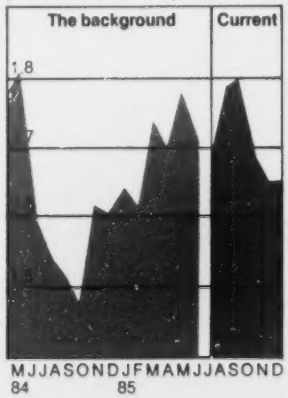
1. Durable factory orders
(Bil. $, seas. adj.)



2. Industrial distributor sales
(Index: 1977 = 100 seas. adj.)



3. Housing permits
(Mil. of units, seas. adj. annual rate)



CURRENT PRICES

No puff in prices

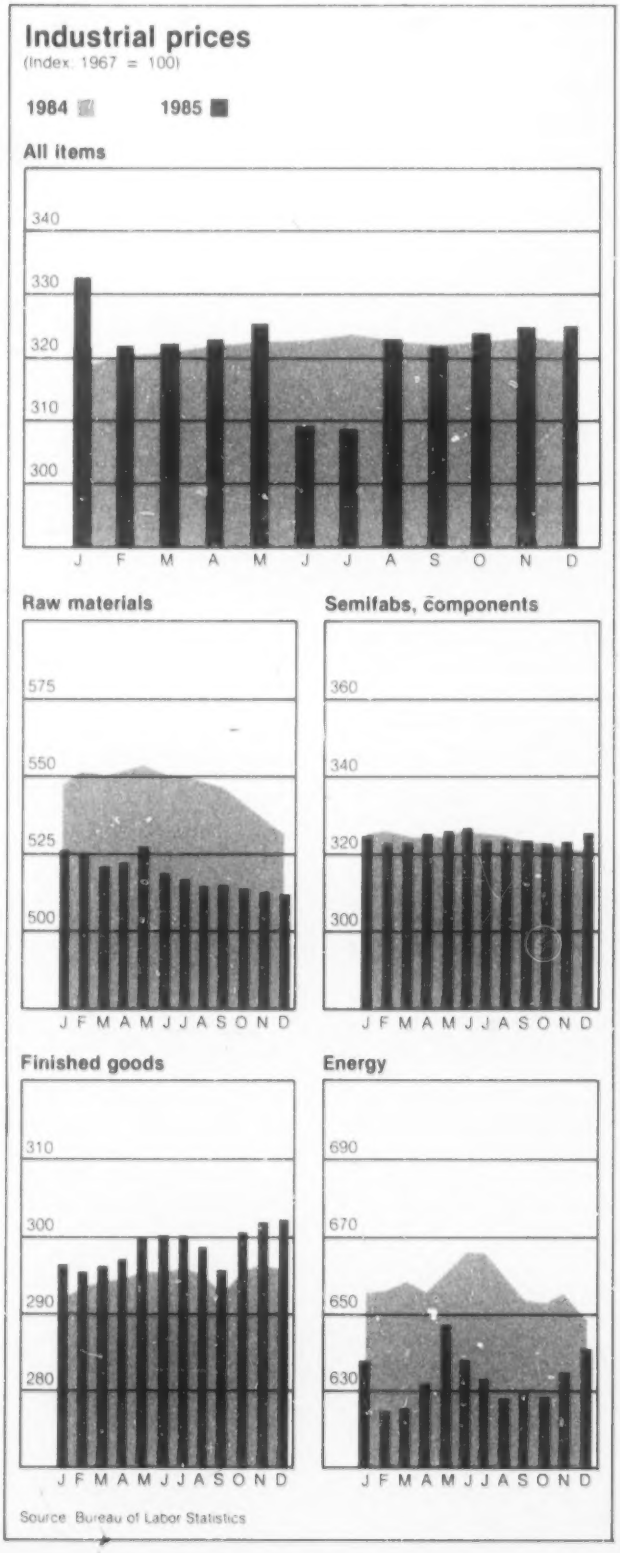
Industrial price averages continue to mark time. Only a fractional 0.1% increase was reported over the past month. And the year-to-year advance is pegged at only 0.7%, with a fair number of declines in individual product lines (see accompanying table).

The only major product group to show substantial price increases over the past 30 days has been energy (up 0.6% from month-earlier levels). Behind this gain: increases in diesel fuel, home heating oil, gasoline, and liquid petroleum gas. These were more than enough to offset declines in both natural gas and bituminous coal.

Capital equipment has remained fairly stable. There were small increases in trucks, commercial fur-

This month's breakdown

	Latest level (Dec.)	% change from: Month ago	Year ago
Bearings	353.2	−0.3	2.2
Bolts, nuts, etc.	276.1	0.0	−0.9
Chemicals, inorganic	298.8	−0.2	0.4
Chemicals, organic	350.7	0.0	−0.2
Concrete products	324.3	0.1	3.9
Corrugated cartons	264.6	0.2	−7.5
Cutting tools, small	287.0	0.0	0.9
Electric lamps (bulbs)	346.8	−0.3	1.5
Electronic components	198.5	0.4	0.7
Fans and blowers	361.1	0.4	2.7
Foundry and forge products	363.4	−0.1	0.4
Fuel oil (residual)	955.2	7.8	−15.6
Furniture, commercial	313.7	0.8	4.7
Gasoline	569.9	0.3	3.0
Glass, flat	229.6	0.2	5.0
Glass containers	387.0	0.0	6.3
Gypsum products	356.7	2.1	7.9
Hand tools	378.5	0.4	3.8
Hand tools, power driven	235.1	0.2	3.9
Industrial furnaces	391.8	−0.1	3.1
Integrating and measuring instruments	232.7	−0.1	0.9
Internal combustion engines	347.1	0.1	2.5
Lubricating oil	N/A	N/A	N/A
Lumber millwork	312.1	0.0	0.2
Material handling equipment	296.0	0.5	1.3
Metal containers	361.4	0.9	1.2
Metal mill shapes (nonferrous)	306.0	−0.2	−2.9
Metal tanks	305.3	0.0	−0.4
Motors and generators	351.0	0.0	8.5
Motor trucks	335.2	0.0	8.5
Office and store equipment	153.2	−0.6	0.3
Paperboard	264.6	0.2	−9.8
Paper boxes and shipping containers	266.2	0.1	−3.1
Paper office supplies	236.3	0.1	−3.0
Paint	278.4	0.4	0.2
Plastic resins	296.7	−1.1	−3.1
Precision measuring tools	265.1	1.0	3.6
Pumps and compressors	359.5	0.0	2.1
Refractories	372.6	0.1	1.9
Rubber belts and belting	336.4	0.0	−2.4
Scales and balances	228.9	0.0	−1.7
Steel products	362.9	0.0	−0.6
Switchgear	281.7	0.1	1.1
Textiles, synthetic fibers	150.2	−0.1	−4.8
Textiles, gray fabrics	151.6	0.3	−1.6
Tires and tubes	235.8	−0.3	−0.5
Transformers and power regulators	233.3	0.6	1.5
Welding equipment	297.1	0.4	2.0
Wire and cable	205.3	0.0	2.0

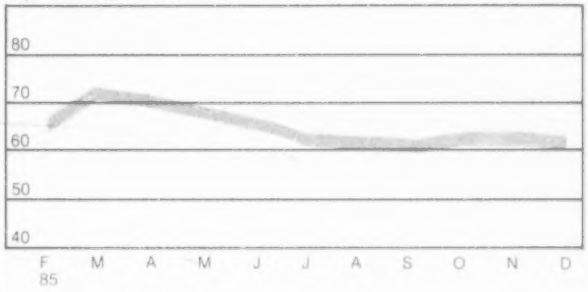


Source: Bureau of Labor Statistics

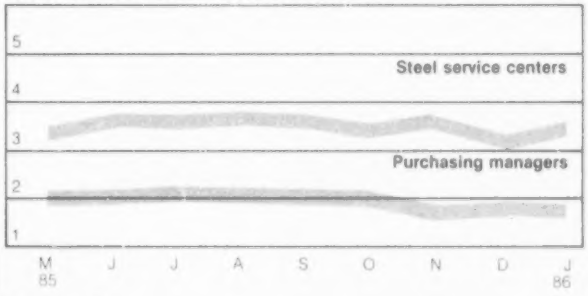
BUSINESS DATATRAK

Steel

Operating rates

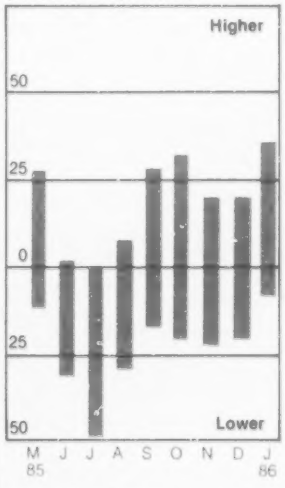


Inventories (months supply on hand)

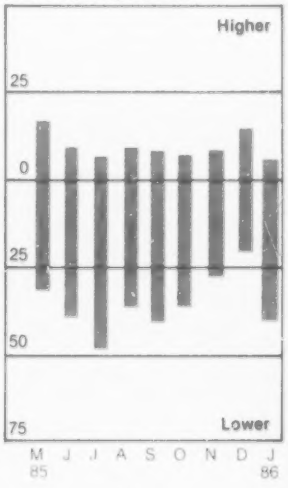


Demand

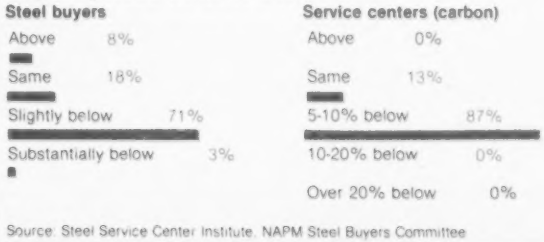
Service centers incoming orders
(Percent of respondents)



Steel buyer purchase
(Percent of respondents)



Import prices (compared to domestic)



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

niture, plastic industry machinery, textile industry machinery, hand tools, and metal forming machine tools. But these were offset by declines in printing trade machinery, photo equipment, autos, and office machinery—the latter is down by .5%.

An overall no-change reading has also been noted in construction materials. Gains in cement, gypsum board, and plastic construction products were offset by declines in millwork, softwood lumber, and plywood.

Basic industrial materials also showed a mixed trend. There were modest increases in paper, paperboard, grey and synthetic fabrics, metal containers, and nonferrous foundry shop products. But softness prevailed in crude and synthetic rubber, rubber hose, tires and tubes, bearings, and bulbs.

In basic metals, tin, gold, and silver edged lower while aluminum and zinc were beginning to sport higher tags.

Government price watchers who compile these numbers also suggest very little change through spring and into early summer.

STEEL SCENE

Optimism surfaces in steel country

Some fair sized gains in steel demand may be in the offing for the next few months at least.

The evidence on this score is pretty conclusive. Nearly one in three buyers surveyed in the NAPM Steel Buyer Survey expects to increase metal intake over the next few months. That's the biggest increase in nearly two years, and more than twice as many who say they might be cutting back a bit.

Distributors responding to a new Steel Service Center Institute (SSCI) query tell pretty much the same story. They even wax optimistic—as 37% anticipate increases in incoming orders, outnumbering those who expect to see some declines by a better than five to one ratio.

However, keep in mind that these are bascially short-term demand forecasts. SSCI president Andrew G. Sharkey continues to be more guarded in his view of the year as a whole. He predicts that his group will do well by approximating last year's peak of 21-21.5 million tons shipped.

This could be one reason why steel service centers remain basically cautious on inventories.

Specifically, some 46% of distributors who responded say they feel their steel holdings are too high. That's six times as many as the 8% who say that some increase in stocks might be in order.

If service centers should not be overly concerned about inventories, they might well be keeping a weather eye on cost-price pressures. The new survey finds that their gross margins have been slipping lately.

And the problem could be getting worse. Distributor answers to another

question—on how replacement costs six months from now will compare with replacement costs today—suggests still more pressure on the steel cost front.

Indeed, some four out of five expect their steel costs to be higher in the third quarter than they are now: 69% see a cost advance of 2-5% and 12% put the possible increase at above 5%.

One reason for this projection could be the recent price adjustments made by producers. Adjustments have cut lists but reduced discounts—with the ultimate goal being an increase in overall market levels. Clearly, the majority of service centers feel that this will ultimately have some impact on their own procurement outlays.

Whether this does indeed happen could well depend on import prices which up until now have been putting significant downward pressure on market quotes.

Some 87% of queried service centers, for example, report that import prices of both carbon and stainless steels continue to run under comparable domestic levels. For stainless, some 20% of the respondents call the price advantage significant.

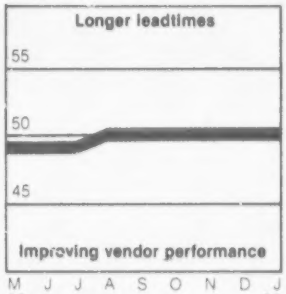
Continuing price competition from overseas is verified by steel buyers. Some 74% say that foreign mills are offering price breaks,

These same buyers also seem to think that this pattern will continue. That's the only way to explain the finding that they plan to be as dependent on foreign steel this summer as they are today.

Monthly procurement status report

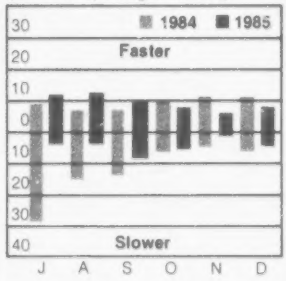
Leadtime index

A "diffusion" index based on 158 key commodities. Avove "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.

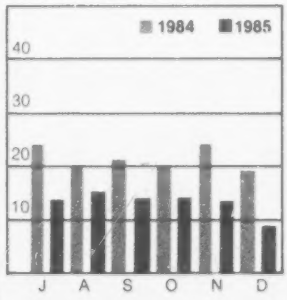


Delivery performance

(Percent reporting deliveries)

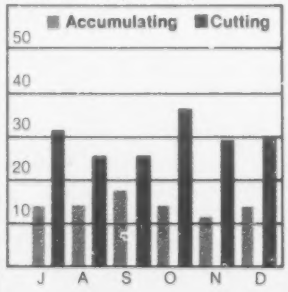


Forward commitments



Inventory strategy

(Percent of respondents)



Source: NAPM

PROCUREMENT STATUS

Leadtime tabs at rock bottom

Production schedules may be edging higher. But you'd never know it by looking at the latest leadtime tabulations.

There have been a few isolated stretchouts—most notably in the electronic component sector which is showing signs of coming out of its 1985 nosedive. But, generally, industry waits remain pretty much where they've been over the last six months—at rock bottom levels.

Some 85% of the more than 150 product lines tracked monthly by *PW* remain relatively unchanged compared to a month ago. Where there have been stretchouts, they've been pretty much offset by improvements in other areas.

Even vendor deliveries, which typically slow down when the economy is in uptrend, continue to improve. Of buyers responding to the latest NAPM Business Survey Committee report, 8% note a speedup. That more than offsets the 5% who have experienced some slowdown over the latest 30-day period.

U.S. industry is operating considerably below its production capacity—a conclusion that is further substantiated by the fact that not one single item is currently on NAPM's short-supply list—a condition that has prevailed for 11 consecutive months.

This is prompting a continued shift in buying policy which has many more buyers cutting back on inventories (30%) than are adding (13%).

There's also a lot more hand-to-mouth buying of production materials. One of every five PMs surveyed say they are going this route, with another 44% committing only 30 days in advance.

At the other end of the spectrum is the miniscule 9% who say they are committing 90 days or more ahead. That is the lowest figure in decades, further proof that no one is worried about supply.

Leadtimes and availability

Chicago: Coming in (in weeks): coated/galvanized steel (7-8), and bichromate chemicals (½). On the upside are special brass tube (8-12), softwood framing (1½), and cold-rolled steel sheet (7-8).

Cleveland: Shorter leads for cold finished aluminum (8), and maintenance paint (2). Stretching out: reconditioned steel drums (2-3), and polyethylene and PVC (3).

Los Angeles: Status quo here: galvanized steel (12-14), aluminum tubing (6-8), grey iron castings (6-8), brass castings (4-6), electro-mechanical devices (6-8), domestic fasteners (6-8).

Houston: Most metal waits are unchanged—at 1-4 weeks. Other typical leads: Pumps (17-31), corrugated cartons (2), plastic resins (2-3), and plastic bottles (4).

Philadelphia: Titanium (now 8-10 weeks) could move out a bit. Longer leads also for copper alloy tubing (5-6), copper alloy sheet and plate (6-8), and high temperature metals (8-19). Most other metal items remain unchanged.

Pittsburgh: The tin crisis is causing delays (2 wks and 6 wks for under-a-ton and ton lots). Other waits: corrugated (3-4), all types of drums (1), waterproof papers (8), steel strapping (2-3), coil coating paint (5), PVC (6), metal alloys (2).

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No big wrinkles in packaging

Although packaging may not continue to be the bargain it has been, prices are not likely to take off.

So say the majority of purchasing executives responding to a new nationwide *PW* packaging survey. The general feeling is that stronger paper prices will make the big difference in 1986—with last year's declines in linerboard and corrugated giving way to some modest advances.

Some of the survey's key findings:

Last year's prices: More than half of the respondents reported lower overall packaging prices last year and another 25% said their situations had not changed. Almost everyone reported declines in corrugated—with some selective slippages also noted in folding boxes, paper bags, and plastic materials and bottles. On the other hand, a handful of respondents said they had to pay a bit more for both metal cans and glass containers.

1986 vs. 1985: Three out of four respondents see some price acceleration ahead—far outweighing the 22% who anticipate a repeat of 1985 and the handful hoping to improve on last year's price performance.

Actual price trends: No one anticipates further declines—though close to 30% feel they may be able to hold the line. The consensus projects an increase of only about 3%. Also on a positive note—no one sees 1986 increases in excess of 6%.

Paper packaging is responsible for most of the projected price increases. The estimated increase in corrugated is put in the 3-5% range. Several buyers note that they've heard of new attempts to boost linerboard into the $290/ton range—$30/ton above current prices.

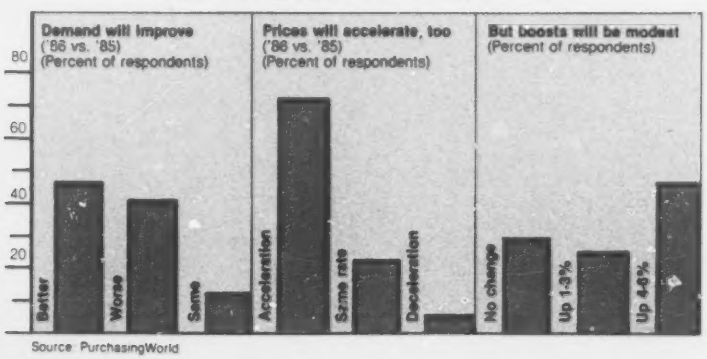
Paper industry forecasts also call for about a 2.5% increase in corrugated container demand, reversing the 2% decline of last year. Similarly, last year's 1% decline in folding paperboard boxes will give way to a 2-3% increase in 1986.

These same industry forecasts also project a 2% increase in demand for metal cans, and 4% for plastic bottles. Glass containers, however, will probably be lucky to equal 1985 levels. There are also scattered predictions for advances in plastics.

The new survey confirms this mild demand trend. Respondents put the average 1986 gain in demand for packaging at about 3%. But demand trend or not, most purchasing managers seem determined to keep a tight lid on prices. Their strategies: redesign, substitution, use of lighter gauge materials, more vendor participation in cost-cutting and planning, and hard-nosed bargaining.

The trend in materials substitution is toward plastics. Paper, glass, and metal will gradually lose out to this cheaper alternative. ***PW***

1986 Packaging Trends: A Buyers' View



Source: PurchasingWorld

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17-21, 26-27, 53, 102.